

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT DIVISION OF CREDIT UNIONS NEWSLETTER

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CREDIT UNION COMMISSION MEETS

The Credit Union Commission met on August 8 2002. Commission members in attendance were Pat Yokley, Bill Humpfer, Sharon Ichord, Cathy Stroud, Pat Macdonald, Lori Levine and John Hanneke. Others attending were Judy Hadsall, City Utilities Employees Credit Union, Rod Gruenberg, Jefferson City Highway Credit Union, Mike Coffey, Farmland Industries Credit Union, Peggy Nalls and Mike Winter, Missouri Credit Union System, Christy Kincannon, Mike Wambolt, John P. Clubb and Todd Jones, Attorney General's Office, Henry Herschel, Attorney, Zurett Merridith, and John P. Smith, Division of Credit Unions.

Minutes from the June 27, 2002 Commission meeting was approved.

The Commission reviewed the field-of-membership expansion applications submitted by **Farmland Industries Credit Union**, and **Jefferson City Highway Credit Union**. More than 3,000 potential members exist within each group. The Commission found the groups met the criteria for an exemption from the limitations on groups in 4 CSR 105-3.040.

After discussion, the Commission dismissed for lack of standing the appeal of the Director's decision approving the field of membership expansion of **City Utilities Credit Union**.

The Commission directed the attorneys representing them to proceed in their best judgement in addressing the Petition in Mandamus filed by the Missouri Bankers Association and the two local banks in the **Educational Employees Credit Union** (now **Vantage Credit Union**) field of membership application while keeping the Commission informed.

The Commission approved for publication for comment in the Missouri Register 4 CSR 100-2.005 Frequency of Credit Union Examinations.

The Commission received several reports:

- ✓ Condition report of Missouri chartered credit unions
- ✓ Update on appeals of Director's decisions approving field of membership applications
- ✓ State and federal legislative update

The next Commission meeting is scheduled for October 31, 2002 in Jefferson City.

FIELD OF MEMBERSHIP APPLICATION UPDATE

Springfield Telephone Employees Credit Union (now **Telcomm Credit Union**) submitted an application to include those persons who reside or work in the 417 telephone Area Code and the 573 (bordered on the north by I-70) telephone Area Code. The Director approved the expansion of **Springfield Telephone Employees Credit Union** to those in the 417 Area Code, but not the 573 Area Code. The decision was published in the November 15, 2000 Missouri Register. On November 30, 2000 the Missouri Bankers Association (MBA) and Century Bank of the Ozarks (CBO) filed an appeal of the decision to the Credit Union Commission. The Commission heard the appeal on March 29, 2001. On May 24, 2001 the Commission upheld the decision of the Director. On August 16, 2001, the decision was released and the Director filed **Springfield Telephone Employees Credit Union's** amended bylaws with the Secretary of State. On September 14, 2001, the MBA and CBO filed a petition for administrative review in Cole County Circuit Court.

On November 19, 2001, a hearing was held before Judge Tom Brown, Division 1, Circuit Court of Cole County. The motion to refer the case to another division of the court was granted and the case was referred to Judge Byron Kinder, Division 2. A motion to dismiss the case for lack of standing was heard on January 3, 2002. On January 29, 2002 the court ruled the plaintiffs lack standing to maintain causes of action set forth in their petition and ordered the plaintiffs' petition be dismissed. On March 11, 2002 the MBA and CBO filed an appeal of the decision in the Western Appellate Court of Appeals. Appellant's briefs were due June 3, 2002 with the respondent's briefs due July 3, 2002. Disposition of the case can be followed on the internet at <http://casenet.osca.state.mo.us/casenet/> case number WD61134.

South Community Credit Union submitted an application for those who work or reside in Zip Codes 63109, 63111, 63116, 63123, 63125, 63128, 63129, and Crawford County, Franklin County, Gasconade County and Washington County. **Central Communications Credit Union** submitted an application for those persons who reside or work in the 816 telephone Area Code. The

Director approved the applications submitted by **South Community and Central Communications Credit Unions**. These decisions were published in the November 15, 2000 Missouri Register. On November 30, 2000 the MBA and two local banks located in each of the two applicants' field of membership expansion areas filed appeals of the decisions to the Credit Union Commission. The Commission received the record of appeals from all parties on May 24, 2001. On August 9, 2001 the Commission upheld the decisions of the Director. The written decisions were released on January 25, 2002. On February 21, 2002, the MBA and the local banks filed a petition for administrative review in Cole County Circuit Court. Both cases were assigned to Judge Tom Brown, Division 1. On April 17 the cases were reassigned to Judge Byron L. Kinder, Division 2 and a motion was entered to stay the proceedings until the outcome of the Springfield Telephone Employees case was decided. The cases can be followed on the internet at <http://casenet.osca.state.mo.us/casenet/>; the case numbers are 02CV323402 and 02CV323401.

Educational Employees Credit Union (now **Vantage Credit Union**) submitted an application for those who live or work in St. Louis County, St. Charles County, Jefferson County, Cape Girardeau County and Franklin County. The application was published in the December 15, 2000 Missouri Register. The Director approved the application and his decision was published in the February 15, 2001 Missouri Register. On March 1, 2001 the MBA and two banks located in the applicant's field of membership expansion area filed an appeal of the decision to the Credit Union Commission. The Commission received the record of appeal of **Educational Employees Credit Union** on October 19, 2001 and established briefing schedules. On March 5, 2002, the Commission dismissed the appeal due to lack of standing. On July 18, 2002 the MBA and the two banks filed a Petition in Mandamus in Cole County Circuit Court. The Commission has directed the attorneys representing them to proceed in their best judgement in addressing the Petition in Mandamus filed by the Missouri Bankers Association and the local bank in the **Educational Employees Credit Union** (now **Vantage Credit Union**) field of membership application while keeping the Commission informed. The case can be followed on the internet at <http://casenet.osca.state.mo.us/casenet/>; case number 02CV324797.

City Utilities Credit Union submitted an application for community residents and workers in Greene and Christian Counties. The application was published in the June 1, 2001 Missouri Register. The Director approved the application and his decision was published in the August 1, 2001 Missouri Register. On August 14, 2001 the MBA and a local bank located within the applicant's field of membership expansion area filed an appeal of the decision to the Credit Union Commission. On August 8, 2002 the Commission heard and denied the appeal for lack of standing.

CommunityAmerica Credit Union submitted an application for those who live or work in Jackson County. The application was published in the June 3, 2002 Missouri Register. The director approved the application and his decision was published in the July 15, 2002 Missouri Register. The decision is now final.

SLCWC Credit Union submitted an application for employees of the Missouri American Water Company located in the State of Missouri and its successor organizations and that employees immediate family. The application was published in the July 1, 2002 Missouri Register. The director approved the application and his decision will be published in the September 3, 2002 Missouri Register. A fifteen calendar day for appeal of the decision must occur before the decision is final.

Edison Credit Union submitted an application for active or retired employees of: ACME Signs, Arrowhead Containers, Building Materials Distributors, Columbia Glass and Window Co., Cook Composites and Polymers, Factory Motor Parts, Foley Company, Gallo Fresh Produce, Harvesters Community Food Networks, Highway Trailer Sales, Kansas City Auto Auction, KCI Incorporated, L'il Guys Foods, Midwest Terminal, Midwest Wholesale Hardware, Nakano Foods, Ticket Master of Kansas City, Western Forms, Inc., immediate family members and households of members. The application was published in the July 15, 2002 Missouri Register. The director approved the application and his decision will be published in the September 3, 2002 Missouri Register. A fifteen calendar day for appeal of the decision must occur before the decision is final.

First Community Credit Union submitted an application for individuals who reside or work in the counties of Lincoln, Warren, Franklin, Washington, St. Francois, Ste. Genevieve, Pike, Montgomery, Gasconade and Crawford in the state of Missouri and the City of St. Louis. **Wireco Credit Union** submitted an application for anyone who lives or works in Buchanan County and their family members. **Mizzou Credit Union** submitted an application for individuals who live or work in Cole County. These applications were published in the August 1, 2002 Missouri Register. A ten business day comment period must occur before the director can make a decision.

PRELIMINARY LOOK AT JUNE 30, 2002 CALL REPORT DATA

The average credit union's return on average assets increased 17 basis points from December 2001 to June 2002 (70 bp to 87 bp). The net worth ratio decreased 10 basis points from 10.41% to 10.31%.

The individual credit union reports point to more problems than the average figures represent. The number of credit unions with a net worth ratio of less than 8% has increased from sixteen in December, 2001 to twenty-two

in June, 2002. Five credit unions have net worth ratios of under 7% compared to three in December, 2001.

Of concern are the twenty-nine credit unions with losses. Adding to this concern is that fourteen had losses of at least 50 basis points (annualized).

Overall, it appears that Missouri credit unions have done an adequate job of managing their share growth with the moderate changes in share growth and net worth. However, it appears as though several individual credit unions likely didn't limit their share growth and continued to pay a higher than market dividend. (Data taken from midyear 2002 Call Reports calculated by Callahan's Peer to Peer program).

RISK FOCUSED EXAMINATION PROCEDURES

A revised examination software program has been developed and tested by the National Credit Union Administration (NCUA) and several state agencies. The software revisions are intended to make more efficient examination procedures and to focus examinations on areas of risk/concern. The Risk Focused Examination program should be implemented by the Division of Credit Unions in September 2002. Additionally, NCUA is requiring quarterly call report submission from **all** federally insured credit unions, beginning with the September 2002 call report.

Examiners, with the Risk Focused Examination program, are granted more discretion in setting examination scopes and determining which examination procedures are necessary and appropriate in assessing a credit union's financial condition, the level of risks which may be present, and related trends. The assessment will be based on the level of inherent risk in the credit union's activities, the strength of risk management processes, and levels and trends in the overall financial condition of the institution. The various risk categories include, but may not be limited to:

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|------------------------------|-----------------|
| Credit Risk | Interest Risk |
| Compliance (Regulatory) Risk | Strategic Risk |
| Liquidity Risk | Reputation Risk |
| Transaction Risk | |

The majority of Risk Focused Examinations will be effective as of the most recent calendar quarter end, utilizing call report data for financial analysis purposes. The effective date of the financial data in the Examination Report may be based upon quarter-end call report data; but the actual examination fieldwork may include a review of more recent records such as lending, general ledger and other financial information.

Over the past few years, Division of Credit Unions

examiners have focused their examination time on identified and/or potential risk areas. Prudence has been utilized in determining those areas and limiting the review of areas where no or little risk was evident. **Therefore, although the revised software package utilized by examiners will change, the nature of the examination process is expected to change minimally.**

FROM THE DIRECTOR

New Legislation

HB1921 staggers the terms of the credit union commissioners and provides for examination of qualifying credit unions at least once each eighteen calendar months. The bill was approved by the General Assembly and signed by Governor Bob Holden. The amendments are effective August 28, 2002. A draft rule defining what qualifies credit unions for the extended cycle has been approved by the Credit Union Commission (4 CSR 100-2.005 Frequency of Credit Union Examinations). The rule will be published in the Missouri Register for a thirty day comment period and sent to credit unions for their comments. Adoption and implementation should occur in 2003.

The wording of the amendment is in bold print.

370.120.1. The director of the division of credit unions, in person or by his **or her** agents, shall examine each credit union annually and at other times as he **or she** shall direct, and at all times shall have free access to all books, papers, securities and other sources of information pertaining to the credit union; **except that the division of credit unions shall examine qualifying credit unions, as determined by the director, at least once each eighteen calendar months.**

Small Credit Union Workshop

The National Credit Union Administration Small Credit Union Program is hosting a small credit union workshop in St. Louis, MO., on October, 8, 2002, at the Sheraton West Port Lakeside Chalet, 191 West Port Plaza, St. Louis, MO. 63146. (314) 878-1500. For more information see our last Newsletter or go to <http://www.ncua.gov/org/orgchart/scup/index.html> on the internet.

Personnel Changes

Scott Cazadd, C.P.A. has worked for the Division of Credit Unions since November 1, 2001. Scott examines credit unions in the St. Louis region.

Stacey Kever has been promoted from office support assistant in the Jefferson City office to financial examiner. Stacey will graduate in August, 2002 from Lincoln University with a degree in computer information systems.

Brooke Mosley will replace Stacey in the Jefferson City office.

Please welcome these additions to our staff.

John P. Smith, Director